



Market update and portfolio positioning

Since the March lows, many equity markets have recovered quite substantially, whereas developed market government bonds have fallen as yields have moved higher. However, the recovery has been far from smooth. Markets have been volatile, swinging dramatically on the daily news flow. Equity markets continue to balance the damage inflicted by the actions taken to halt the spread of COVID-19, with the measures implemented to counter the economic slowdown and protect the loss of jobs.

The European Central Bank (ECB) lived up to expectations, announcing an additional 600 billion euros as part of its Pandemic Emergency Purchase Program (PEPP). Whilst monetary policy has been supportive, coordinated fiscal action is still lacking across the Eurozone. Whilst there has been a proposal of 750 billion euros from the European Union (EU), as expected, getting the support from all 27 countries poses a challenge. Germany has announced its own fiscal measures to support its recovery in a marked change from its previously frugal stance. President Trump's rhetoric threatens to reignite the trade war with China. So far, it has just been posturing, perhaps for election purposes, as opposed to any concrete action. However, the recent actions by China on the security laws in Hong Kong have added to international tensions, which may have long-term significance for the relationship between the West and China.

Recent reports of progress on a vaccine from Moderna in the US and AstraZeneca in Oxford have led to a sense of optimism. Even though the efficacy of these vaccines is still being tested, facilities are already being prepped in advance for mass production on a huge scale. In the UK, the lockdown measures show signs of success, with fewer new cases and deaths, and restrictions slowly lifting. Whilst we understand that the statistics are not entirely reliable, the infection rate and the number of fatalities in many countries are falling. In many parts of Europe and the US, lockdowns are being eased, and the reopening of parts of the economy on the back of better numbers is positive. However, South Korea, who had appeared to have effectively contained the disease, saw a new outbreak, reminding us of the danger of a further spike in cases, and there are still countries, such as Brazil, where health systems are being overwhelmed.

Whilst some economic data appears to be improving, the numbers still indicate that the global economy has incurred significant damage. Even as lockdown restrictions have eased around the world, they remain far from over, making a number of economic figures harder to calculate. We may not get a clear measure of the economic situation until after the pandemic is over. Given the recovery seen in many equity markets, it is clear that investors have preferred to look forward through the crisis as opposed to focussing on the present economic data. Some businesses may see a rapid recovery as conditions begin to normalise; however other industries, particularly the hospitality and tourism sectors, may take many years to recover.

Volatile markets are here to stay, but investors need to try to look past the day-to-day noise. News of advances on vaccines and the possible stimulus measures have generated a degree of optimism over the past month. However, disagreement between EU member states, rising tensions between the US and China and somewhat unreliable economic data have weighed on investors' enthusiasm and dented the market's positive sentiment. We continue to advocate a selective and long-term approach to investment.

To that end, we have been relatively active in the Model Portfolios this month, making changes to our UK equity allocation and our Absolute Return basket. In the UK equity component, we decided to remove our allocation to Schroder Income and allocate the monies to a new investment, the Brown Advisory Global Leaders fund. The Brown fund invests in high-quality global companies and is a good complement to our existing global funds like Fundsmith. This move is reflective of our belief that many of the best companies reside outside of the UK, unfortunately.

In our Absolute Return basket, we are excited to introduce a new fund, the BlackRock Event Driven fund, in place of our existing holdings Winton Absolute Return futures and Threadneedle Credit Opportunities. The fund has delivered impressive returns and has the benefit of having a low correlation to other assets within the portfolios. We have also used some of the proceeds from the sale of the Absolute Return funds to increase our allocation to US TIPS. We continue to take the view that, while inflation will remain subdued in the short term, there is certainly a possibility of inflation picking up as we move into 2021 and beyond. Continued fiscal stimulus, an expanding monetary base and supply chain disruption are all factors that could push up inflation in the medium-term, particularly if they coincide with increased demand. Whilst we do not believe this to be a significant risk factor throughout the rest of the year, we are taking the opportunity to increase the hedge against inflation within portfolios, during a period where market expectations of inflation are very low, particularly in the US.

MPS performance and volatility as at 31 May 2020

	Target*			Five year annualised	
	Volatility %	Return % pa	Maximum Loss %	Volatility %	Return %
Defensive	2 to 4.75	3 to 4.5	-5.0	4.31	3.84
Cautious	4 to 7	4.5 to 6	-9.1	5.20	4.29
Balanced	5 to 9	5.2 to 7.5	-13.5	7.39	4.88
Growth	8 to 13	6 to 8	-19.0	9.39	5.61
Adventurous	10 to 16	7 to 10	-25.0	10.87	6.45

* Where targets are given, these are for indication purposes only; the actual figures achieved could be more or less than the ranges given. Quarterly figures are net of underlying fund costs but gross of all other charges. Other charges include the LGT Vestra discretionary management fee, the platform custody charge, all adviser charges and where applicable any transaction costs (e.g. ptm / trading charges).

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

Key market data (as at 31 May 2020)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
FTSE All-Share (GBP)	3364	3.4	-7.8	-16.1	-11.2	-8.4	7.2	-18.8
S&P 500 (USD)	3044	4.8	3.6	-2.1	12.8	34.0	59.7	-5.0
Euro Stoxx 50 (EUR)	3050	4.7	-7.6	-16.7	-5.4	-7.8	-3.2	-17.6
Nikkei 225 (JPY)	21878	8.3	4.4	-5.0	8.6	18.5	17.6	-6.6
MSCI World (USD)	2148	4.8	0.9	-5.4	6.8	18.8	32.9	-8.2
MSCI AC Asia Pacific ex Japan (USD)	476	-0.3	-5.9	-8.2	-2.0	3.7	9.9	-13.2
MSCI Emerging Markets (USD)	930	0.8	-6.9	-9.7	-4.4	-0.5	4.6	-16.0
10 year bond yields **								
UK	0.18	0.0	-0.3	-0.5	-0.7	-0.9	-1.7	-0.6
US	0.65	0.0	-0.5	-1.1	-1.5	-1.6	-1.5	-1.3
Germany	-0.45	0.1	0.2	-0.1	-0.2	-0.8	-1.0	-0.3
Japan	0.01	0.0	0.2	0.1	0.1	0.0	-0.4	0.0
Commodities (USD)								
Gold	1730	2.6	9.1	18.2	32.5	36.4	45.5	14.0
Oil	35	39.8	-30.1	-43.4	-45.2	-29.8	-45.5	-46.5
Currency								
GBP-USD	1.23	-2.0	-3.7	-4.5	-2.3	-4.2	-18.8	-6.9
GBP-EUR	1.11	-3.3	-4.3	-5.3	-1.7	-3.0	-20.1	-6.0
EUR-USD	1.11	1.3	0.7	0.8	-0.6	-1.3	1.6	-1.0
USD-JPY	107.83	0.6	-0.1	-1.5	-0.4	-2.7	-13.6	-0.7

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange

* Performance is given on total return indices, but the levels are for the main indices.

** Displayed as absolute changes in yields, rather than percentages.

MPS positioning as at 18 June 2020

	Defensive	Cautious	Balanced	Growth	Adventurous	Strategic Income
Fixed Income	47	37	29	23	8	42
Jupiter Strategic Bond	8	8	8	9	4	8
M&G Strategic Corporate Bond						8
AXA US Short Duration High Yield Bond	8	6	3	4		8
Vanguard US Govt Bond Index	9	7	5	4	4	
Muzinich Global Tactical Credit	4	4	4	6		5
Invesco Perpetual Corporate Bond						8
CG Dollar	10	8	5			3
Janus Henderson Strategic Bond	4	4	4			2
Dimensional Inflation Linked Gilt	4					
UK Equities	7	13	16	22	21	14
Merian UK Smaller Companies			2	4	5	
Trojan Income		2	2	3	3	
Marlborough Multi Cap Income						3
Schroder Income Maximiser						3
Threadneedle UK Equity Income	2	3	3	4	3	4
RWC Enhanced Income						4
CF Lindsell Train UK Equity	3	3	4	4	4	
L&G FTSE 100 Index Trust		3	3	5	4	
Liontrust Special Situations	2	2	2	2	2	
International Equities	16	25	37	52	68	42
<i>North America</i>	<i>5</i>	<i>5</i>	<i>10</i>	<i>10</i>	<i>11</i>	<i>7</i>
Morgan Stanley US Advantage	3	3	6	6	7	
Schroder US Equity Income Maximiser						7
T Rowe US Smaller Companies			2	2	2	
L&G US Index	2	2	2	2	2	
<i>Asia Pacific & Emerging Markets</i>	<i>0</i>	<i>3</i>	<i>9</i>	<i>10</i>	<i>19</i>	<i>6</i>
Stewart Asia Pacific Leaders		3	2	2	2	
Schroder Asian Income Maximiser						6
Baillie Gifford Japanese			3			
Baillie Gifford Japanese Smaller Companies				3	7	
Goldman Sachs India					2	
RWC Global Emerging Markets			2	3	4	
Schroder Asian Total Return			2	2	4	
<i>Global</i>	<i>11</i>	<i>17</i>	<i>18</i>	<i>32</i>	<i>38</i>	<i>29</i>
Fundsmith	4	6	7	8	8	7
Polar Capital Global Insurance Fund				1	4	
Morgan Stanley Global Brands Hedged	2	2	4	5	5	
River & Mercantile World Recovery Fund				4	4	6
Lindsell Train Global Equity						4
Fidelity Global Dividend Hedged	3	4	4	5	6	7
L&G Technology Index Trust					4	
Lazard Global Listed Infrastructure	2	2		5	4	5
Brown Global Leaders		3	3	4	3	
Alternatives	16	13	7	0	0	0
<i>Absolute Return</i>	<i>16</i>	<i>13</i>	<i>7</i>	<i>0</i>	<i>0</i>	<i>0</i>
Artemis US Absolute Return	6	5				
Troy Trojan X	6	5	4			
BlackRock Global Event Driven strategy	4	3	3			
Cash / Liquidity Funds	14	12	11	3	3	2
BlackRock Cash	12	10	9			
Cash	2	2	2	3	3	2

LGT Vestra LLP
14 Cornhill
London
EC3V 3NR
Phone +44 (0)20 3207 8000
Fax +44 (0)20 3207 8001
info@lgtvestra.com
www.lgtvestra.com

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The market views herein are drawn from the minutes of the LGT Vestra LLP Investment Committee which meets on a monthly basis.